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ABSTRACT

In response to a request from Congress, the General Accounting Office studied veterans education benefits, known as GI benefits, comparing the benefits received by veterans with those received by nonveterans and investigating whether receiving GI benefits affects veterans eligibility for other financial aid. Data were collected from two U.S. Department of Education databases with information on large numbers of veterans and nonveterans. Findings suggest that the receipt of GI benefits may affect veterans eligibility for some federal grants, loans, and tax incentives. Under Title IV, receiving GI benefits does not affect the amount of aid veterans may receive under the Pell grant and Stafford loan programs, but it may affect the amount they receive in unsubsidized loans and through campus-based programs. In some cases, GI benefits are considered as another source of financial aid for students, which may decrease financial need and the amount of need-based aid provided. Receiving GI benefits may also affect the amount veterans can claim in federal tax incentives available for postsecondary education. On average, veterans and nonveterans with comparable characteristics are awarded similar amounts of federal Title IV aid, and when GI benefits are included, the total amount of federal assistance is greater for veterans than for nonveterans. Appendix 1 contains a chart of estimated Title IV aid awarded to students, and Appendix 2 contains comments from the Department of Veterans' Affairs. (SLD)

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United States General Accounting Office

GAO

Report to the Ranking Minority Member, Committee on Veterans' Affairs, U.S. Senate

February 2002

VETERANS' EDUCATION BENEFITS

Comparison of Federal Assistance Awarded to Veteran and Nonveteran Students

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Abbreviations

EFC	expected family contribution
FAFSA	Free Application for Federal Student Aid
HEA	Higher Education Act
IRA	individual retirement accounts
SEOG	Supplemental Educational Opportunity Grant

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United States General Accounting Office
Washington, DC 20548

February 28, 2002

The Honorable Arlen Specter
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

Dear Senator Specter:

The Veterans' Education Assistance Act of 1984 created the Montgomery GI Bill—known as GI benefits—(U.S.C. Title 38 Chapter 30), a benefit program that provides a monthly stipend to pay for postsecondary education expenses for veterans and eligible service members. Recently, concerns have been raised about whether GI benefits adequately cover educational costs and whether the receipt of GI benefits affects the amount of other federal financial assistance available to postsecondary students under Title IV of the Higher Education Act (HEA) and the Internal Revenue Code. Through Title IV, about $46 billion was awarded to students in the form of grants, loans, and work-study programs in the 1999-2000 academic year. The primary Title IV programs consist of (1) Pell grants; (2) subsidized and unsubsidized Stafford loans; and (3) Supplemental Educational Opportunity grants (SEOG), Perkins loans, and work study aid funded by the federal government and administered by participating higher education institutions, commonly known as campus-based aid. Under the Internal Revenue Code, a variety of provisions are available that are designed to help families pay for college. For example, in 1999, taxpayers claimed an estimated $5.2 billion in HOPE and Lifetime Learning tax credits, which allow taxpayers to reduce the amount of taxes owed by receiving a credit for tuition and fees paid.

Given the broad range of federal postsecondary financial aid available to students, you asked us to (1) determine whether receiving GI benefits affects veterans' eligibility for other federal financial aid and (2) compare the typical amount of federal financial aid awarded to veteran and nonveteran students based on various student and family characteristics that affect their eligibility for financial aid, including income and whether students were dependent or independent of their parents. For our first objective, we reviewed the HEA of 1965, as amended, and related regulations to identify the type of federal aid available under Title IV programs to all students, the methodology used to determine students' eligibility for this aid, and how GI benefits are treated in federal

methodology. For our second objective, we used data from two U.S. Department of Education databases for academic year 1999-2000 to determine the amount of Title IV aid awarded to all students. We asked Education to estimate the amount of Title IV aid awarded to the following populations: (1) veteran students; (2) nonveteran independent students; and (3) nonveteran dependent students who were in their first year of enrollment on a full-time basis at a public 2-year, public 4-year, and private 4-year institution. Over 90 percent of veteran and nonveteran students are enrolled in such institutions. For each of these populations, we identified the 25th, 50th, and 75th family income percentiles and the amount of Pell grant and Stafford loans awarded to students at these income levels, based on the average cost of attendance for each type of institution. We also asked Education to calculate the average campus-based aid award made to each student population at each type of institution. We did not independently verify data collected or analyzed by Education, however this is the only source of data available. We did verify Education's calculations of estimated Pell grant and Stafford loan aid awarded. Since tax forms do not collect information on a taxpayer's veteran status, there is no data on the exact amount of HOPE and Lifetime Learning tax credits claimed by veteran and nonveteran students. Therefore, we calculated the amount of tax credits for which students or families may be eligible based on a variety of factors, such as family income and amount of grant aid received. We did not include data on the amount of financial aid a student may receive from a state or an institution. We performed our work in accordance with generally accepted government auditing standards from July 2001 to January 2002.

Results in Brief

The receipt of GI benefits may affect veterans' eligibility for some federal grants, loans, and tax incentives. Under Title IV, receiving GI benefits does not affect the amount of aid veterans receive under the Pell grant and subsidized Stafford loan programs but may affect the amount they receive in unsubsidized loans and through campus-based aid programs. In general, eligibility for federal Title IV aid is based on a student's financial need, which includes a consideration of an institution's cost of attendance, the amount a student and the student's family is expected to contribute toward that cost, and the amount of other financial assistance available to students. Depending on the particular program, GI benefits may be considered as another source of financial assistance for students, which may decrease a veteran student's financial need and thus the amount of need-based aid provided. With regard to various federal tax incentives available for postsecondary education, receiving GI benefits does not

specifically preclude veterans from claiming such benefits but may affect the amount veterans would be eligible to claim.

On average, veterans and nonveterans with comparable characteristics are awarded similar amounts of federal Title IV aid, and when GI benefits are included, the total amount of federal assistance is greater for veterans than it is for nonveterans. Moreover, veterans' total aid package of Pell Grants, Stafford loans, and GI benefits has lower proportions of loans compared with nonveterans' packages. For example, among middle-income students attending a public 4-year institution in academic year 1999-2000, a veteran's student aid package would be comprised of 39 percent loans and 61 percent grants and benefits, compared with 78 percent loans and 22 percent grants for a nonveteran independent student. For a dependent nonveteran student from a middle-income family, the financial aid package would consist entirely of loans. As a result, middle-income veteran students would incur less debt in financing their education. On average, veteran students received slightly lower average campus-based aid awards than nonveteran dependent students; but they received more than nonveteran independent students at 4-year institutions. The actual amount claimed in HOPE and Lifetime Learning tax credits by veteran and nonveteran students is unknown. However, the amount of tuition and fees paid, amount of GI benefits and grant aid received, and family income and taxes owed will affect the amount of tax credit one may claim. For example, veterans who receive GI benefits or nonveterans who receive grant aid that equal the amount of tuition and fees paid will not be able to claim either a HOPE or Lifetime Learning tax credit.

We provided the Departments of Veterans Affairs and Education with a copy of our draft report for review and comment. In written comments on our draft report, Veterans Affairs generally agreed with our reported findings. Education did not provide written comments, but provided technical clarifications on our draft report.

Background

Montgomery GI Bill Education Benefits

The Veterans' Education Assistance Act of 1984 created the current Montgomery GI bill program. Under the GI bill program (Title 38 United States Code Chapter 30), veterans who have met their duty obligation and were honorably discharged are eligible to receive GI benefits. Active-duty personnel are also eligible to use GI benefits. In fiscal year 2000, approximately $923 million was paid to veterans through the GI bill

program. The GI bill program is a contributory program, which requires service members, upon enlistment, to contribute $100 per month for their first 12 months of service. Although service members have the option to decline participation at enlistment, almost all are enrolling in the GI bill program. In fiscal year 1999, 96 percent of all active-duty eligible enlistees enrolled in the GI bill program. GI benefits end 10 years from last discharge, and if veterans do not use their GI benefit within that time period, the amount is not refunded to them.[1]

Veterans may use GI benefits for a variety of postsecondary education programs, including an undergraduate or graduate degree; courses that lead to a certificate or diploma from a business, technical, or vocational school; correspondence training; on-the-job training or apprenticeships; and vocational flight training. The monthly benefit amount will vary depending on the type of coursework in which the veteran enrolls and whether the student attends part-time or full-time. For veterans who enroll full-time in an undergraduate degree program in academic year 2001-02, the monthly GI benefit is $672 per month for a maximum of 36 months—a total of $6,048 for each of 4 academic years. The Veterans Education and Benefits Expansion Act of 2001 (P.L. 107-103) increases the monthly GI benefit to $800 per month as of January 1, 2002. Additionally, the law increases the GI benefit to $900 per month on October 1, 2002 and to $985 per month beginning on October 1, 2003—a total of $8,100 in 2002-03 and $8,865 in 2003-04. Most veterans use their GI benefits to pursue an undergraduate degree. For example, in fiscal year 2001, 88 percent of GI bill beneficiaries were pursuing an undergraduate degree. In addition, 62 percent of GI bill beneficiaries were enrolled in school full-time.

Federal Financial Aid for Postsecondary Education

Title IV of HEA of 1965, as amended in 1998, authorizes the federal government's financial aid programs for postsecondary education. Title IV programs include the following:

- **Pell grant**—grants to undergraduate students who are enrolled in a degree or certificate program and have financial need.

[1]In November 2001, the House of Representatives passed the Reservists Education Protection Act of 2001 (H.R. 3240). This act would allow retired and reserve military personnel called to duty during the war on terrorism to extend the requirement to use GI benefits within 10 years by adding the time of their mobilized tour of duty, plus 4 months to it.

- **Subsidized Stafford loan**—loans made to students enrolled at least half-time in an eligible program of study and have demonstrated financial need. The federal government pays the interest costs on the loan while the student is in school.

- **Unsubsidized Stafford loan**—loans made to students enrolled at least half-time in an eligible program of study. Although the terms and conditions of the loan (e.g., interest rates) are the same as those for subsidized loans, the federal government does not pay the interest costs on the loan while the student is in school. Students are therefore responsible for all interest costs.

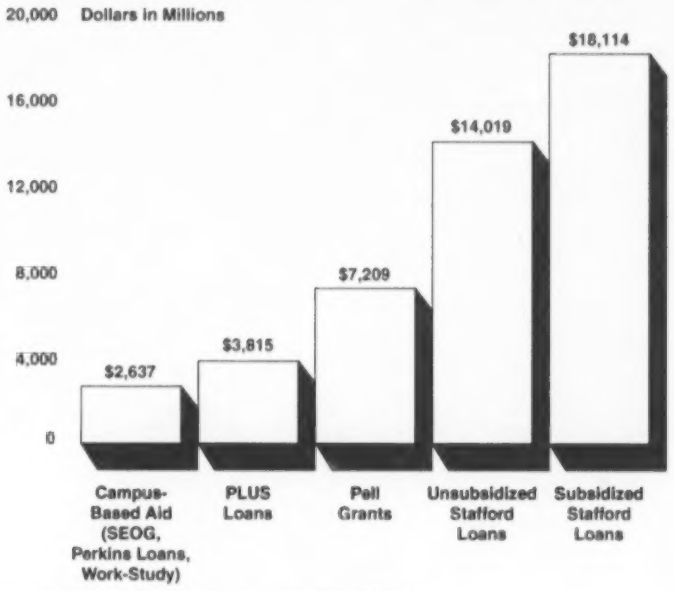
- **PLUS loans**—loans made to parents of dependent undergraduate students enrolled at least half-time in an eligible program of study. Borrowers are responsible for paying all interest on the loan.

- **Campus-based aid**—allocated to participating institutions by the U.S. Department of Education. The institutions then award the following aid to students:

  - **Supplemental Educational Opportunity Grant (SEOG)**—grants for undergraduate students with financial need. Priority for this aid is given to Pell grant recipients.
  - **Perkins loans**—low-interest (5 percent) loans to undergraduate and graduate students. Interest does not accrue while the student is enrolled at least half-time in an eligible program. Priority is given to students who have exceptional financial need.
  - **Work-study**—students are provided on- or off-campus jobs in which they earn at least the current federal minimum wage. The institution or off-campus employer pays a portion of their wages.

Education is responsible for administering $46 billion a year through these programs. As shown in figure 1, most of these funds are subsidized and unsubsidized Stafford loans.

Figure 1: Amount of Federal Aid Awarded to Students and Families in 1999-2000



Note: Estimated data for academic year 1999-2000.

Source: College Board, Trends in Student Aid: 2001.

In addition to the Title IV programs, there are tax provisions that students and their families may be eligible to use for postsecondary education. The Taxpayer Relief Act of 1997 (P.L. 105-34) created several provisions to help families pay for postsecondary education, such as the HOPE tax credit, Lifetime Learning tax credit, and the student loan interest deduction. The act also created tax-exempt savings accounts, called education individual retirement accounts (IRA), to help families save for college. See table 1 for further detail about the tax provisions created under the Taxpayer Relief Act. The act also made changes to the tax treatment of state tuition savings plans, extended the exclusion for educational assistance provided by employers from students' taxable incomes, and exempted IRA distributions for qualified higher education expenses from early withdrawal penalties.

Table 1: Postsecondary Education Tax Provisions Enacted under the Taxpayer Relief Act of 1997

Tax provision	Tax benefit	Definition of qualified higher education expense	Who is eligible	Tax benefit is phased out for filers with incomes between...
HOPE credit	Maximum credit: $1,500 Credit rate is 100 percent on first $1,000 of qualified higher education expenses, 50 percent on next $1,000.	Tuition and fees at institutions eligible to participate in Title IV programs	Tax filer on behalf of self, spouse, or dependent who is working towards a degree or certificate at least half-time in the first 2 years of postsecondary enrollment.	Single filer: $40-50,000 Joint return: $80-100,000
Lifetime Learning credit	Maximum credit: $1,000 (in 2003 maximum increases to $2,000) 20 percent of qualified higher education expenses up to $5,000 (increases to $10,000 in 2003).	Tuition and fees at institutions eligible to participate in Title IV programs	Tax filer on behalf of self, spouse, or dependent who is enrolled in undergraduate or graduate courses, or any course that aids in learning new or improving existing job skills, for as many years as the student is enrolled.	Single filer: $40-50,000 Joint return: $80-100,000
Student loan interest deduction	Maximum deduction: $2,500 Interest paid on eligible education loans is deductible.	Eligible loans are those used to pay for tuition, fees, room and board, and related expenses minus any scholarships or grants received	Tax filer, even those who do not itemize, may deduct interest paid on education loans during the first 60 months interest payments are required[a]	Single filer:[b] $40-55,000 Joint return: $60-75,000
Education IRA	Annual contribution limit is $500[c] per designated beneficiary. Account earnings and distributions used for qualified higher education expenses are tax-free.	Tuition, fees, books, supplies, and equipment required for attendance. Room and board if enrolled half-time or more.	Distributions from education IRA can be used for students enrolled on full-time, half-time, or less than half-time basis.	Single filer: $95-110,000 Joint return: $150-160,000

[a]Under the Economic Growth and Tax Relief Reconciliation Act, the 60-month limit will be eliminated in 2002, and tax filers may deduct the interest as long as they are paying it.

[b]Under the Economic Growth and Tax Relief Reconciliation Act, the income phase-out range increases to $50-$65,000 for single filers and $100-130,000 for joint returns in 2002.

[c]Under the Economic Growth and Tax Relief Reconciliation Act, the annual contribution limit will increase to $2,000 beginning in 2002.

Source: Joint Committee on Taxation and Congressional Research Service.

In 2001, the Economic Growth and Tax Relief Reconciliation Act (P.L. 107-16) expanded and modified several of the tax provisions previously mentioned. Most notably, the act created a new tax deduction for tuition and fees for taxpayers, even those who do not itemize. In 2002 through 2005, taxpayers will have the option of using either the HOPE tax credit or the tuition deduction. The 2001 act also made changes to the student loan interest deduction and education IRAs.

Federal Methodology for Determining Financial Need for Title IV Programs

To obtain financial aid under Title IV programs, students must apply using the Free Application for Federal Student Aid (FAFSA). Information from the FAFSA is used to determine the amount of money—called the expected family contribution (EFC)—that a student, or student's family, is expected to contribute to the student's education. A student is classified as either financially dependent on his or her parents or independent in the financial aid process. This classification is important because it affects the factors used to determine a student's EFC. For dependent students, the EFC is based on both the student and parent's income and assets, as well as whether the family has other children enrolled in college. For independent students, the EFC is based on the student's and, if married, spouse's income and assets and whether the student has any dependents other than a spouse. By law, veteran students are automatically classified as independent students, and GI benefits are not included as veterans' income for purposes of calculating EFC.[2]

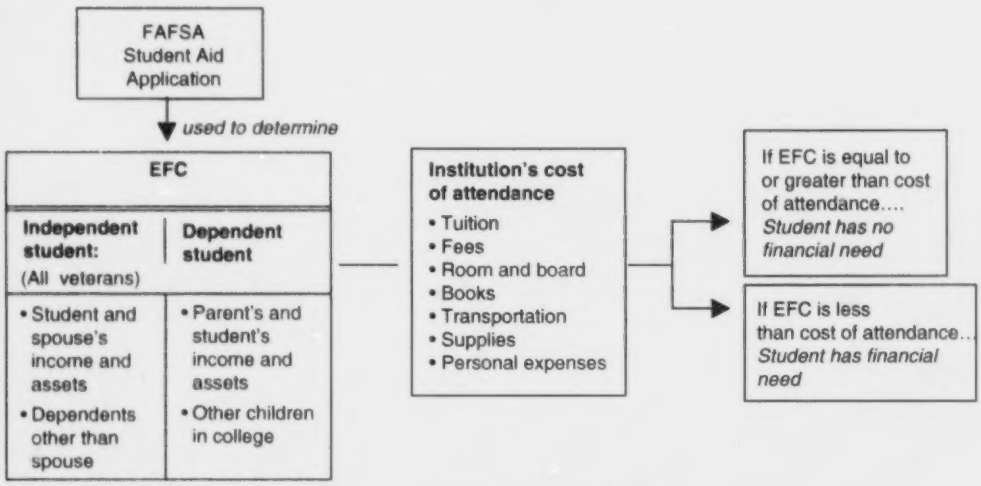
Once EFC is established, this information is compared to the cost of the institution at which the student will attend to determine a student's financial need. In the federal financial aid process, an institution's cost of attendance includes tuition and fees, room and board, books, supplies, transportation, and miscellaneous personal expenses. The type of institution that a student attends will affect the cost of attendance. Typically, public 2-year institutions cost significantly less than public 4-year institutions or private 4-year institutions. For example, on average, the annual cost to attend a public 2-year college as a commuter student was $7,024 compared with $11,338 for resident students at public 4-year institutions and $24,946 for resident students at private 4-year institutions.

If the EFC is equal to or greater than the cost of attendance, then the student is not considered to have financial need for federal aid programs. If the EFC is less than cost of attendance, then the student is considered to have financial need. Financial aid administrators at the school the student is attending then create a federal financial aid package that could include grants, loans, and work-study. The basic premise for awarding need-based aid is that a student's "total financial aid package must not exceed a student's need." Veterans are an exception to this rule, and in some cases, those who receive GI benefits may receive a combined federal aid package

[2]Nonveteran students who meet at least one of the following criteria in academic year 2001-02 are also considered independent in the federal financial aid process: born before January 1, 1978; married; enrolled in a graduate or professional educational program; have legal dependents other than a spouse; or an orphan or ward of the court.

of GI benefits and need-based aid, such as Pell grants and subsidized Stafford loans, that is greater than their financial need. Figure 2 highlights these key steps in determining a student's financial need for Title IV programs.

Figure 2: Process for Determining Financial Need for Title IV Programs

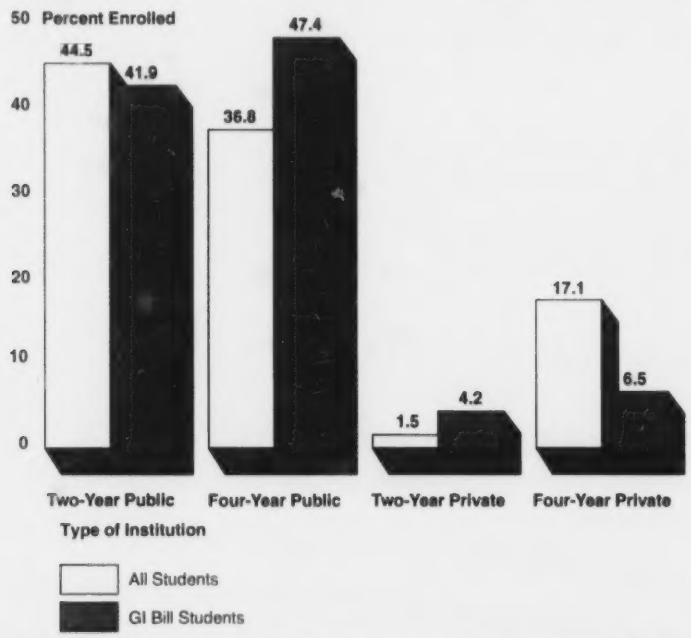


Source: GAO analysis of HEA.

Enrollment in Postsecondary Institutions

Most students, whether receiving a GI benefit or not, enroll in a public 2- or 4-year institution. As shown in figure 3, 81 percent of the overall student population and 89 percent of GI bill students enroll in a public institution, while 19 percent of all students and 11 percent of GI bill students enroll in a private institution. Due to the fact that small proportions of the general student population and GI bill students enroll at private 2-year institutions, we focused our analysis on the other three types of institutions.

Figure 3: Percent of All Students and GI Bill Students Enrolled at Each Type of Institution



Note: Data for all students were collected for academic year 1999-2000. Data for GI bill students were collected from veterans who entered service between 1989 and 1999 and had used their GI benefits by April 1999.

Source: All student data from College Board, Trends in College Pricing: 2000 and GAO's analysis of GI bill student data collected for the Klemm Analysis Group's Program Evaluation of the Montgomery GI Bill, April 17, 2000.

Receiving GI Benefits May Affect Eligibility for Some Federal Financial Aid

Veterans' eligibility for some federal grants, loans, and tax incentives may be affected by the receipt of GI benefits. Veterans can apply for federal Title IV aid; however, receiving GI benefits may affect their eligibility for some Title IV aid. Pell grant aid is awarded to students based mainly on income. The amount awarded to students is the difference between the maximum Pell grant award for that academic year and the student's EFC. GI benefits are not included in the formula used to calculate EFC and therefore receiving them does not affect veterans' eligibility for Pell grants. For all other Title IV aid, EFC and the amount of other financial assistance students receive is subtracted from the cost of attendance to determine financial need. Depending on the aid program, GI benefits may or may not be considered as another source of financial assistance for veteran students, thus affecting veterans' eligibility for these programs. By law, GI benefits are specifically excluded as another source of assistance for

veteran students when awarding subsidized Stafford loans. Since GI benefits are excluded from the calculations used to award subsidized Stafford loans, veterans and nonveterans are equally eligible for these loans. On the other hand, when determining eligibility for unsubsidized Stafford loans and campus-based aid, GI benefits are considered another source of assistance. Regulations issued in 1999 allow financial aid administrators some flexibility to exclude the value of GI benefits in the calculations for campus-based aid, but only if the GI bill student also receives a subsidized Stafford loan.[3] If this flexibility is used, veteran students' eligibility for campus-based aid may not be affected by receipt of GI benefits. With regard to various federal tax incentives available for postsecondary education, receiving GI benefits does not prevent veterans from claiming such benefits, but may affect the amount they would be eligible to claim.[4]

Generally Veteran Students Receive the Same or More Federal Assistance than Nonveteran Students with the Same Characteristics

On average, veterans and nonveterans with similar characteristics are awarded about the same amount of federal Title IV aid, and when GI benefits are included, the total amount of federal assistance for postsecondary education is greater for veterans than nonveterans. When GI benefits are combined with Pell grant and Stafford loan aid, veterans receive aid packages that include a lower proportion of loans than nonveterans. Veterans receive smaller campus-based aid awards than nonveteran dependents, but more than nonveteran independent students at 4-year institutions. Although the actual amount claimed in HOPE and Lifetime Learning tax credits by veteran and nonveteran students is unknown, there are several factors that affect the amount a student may be eligible to claim.

[3]The amount of GI benefits that can be excluded cannot exceed the value of the subsidized Stafford loan awarded to the veteran student. For example, a veteran who receives $4,200 in GI benefits and $2,625 in subsidized Stafford loans may have $2,625 of his GI benefits excluded from the calculation used to award campus-based aid.

[4]U.S. General Accounting Office, *VA Student Financial Aid: Potential Effect of Providing Education Tax Benefit Eligibility to Students Receiving VA Assistance*, GAO/HEHS-00-40R (Washington, D.C.: 2000). We reported that students who attend schools that are not certified by the U.S. Department of Education are not eligible to claim federal tax credits. In the three states that we examined, we found that a small number (2.3 percent) of veterans receiving educational assistance from the Department of Veterans' Affairs attended schools that were not certified by Education and thus were not eligible to receive federal tax benefits.

Veterans' Total Aid Packages of Pell Grants, Stafford Loans, and GI Benefits Are Larger Than Nonveterans and Include Smaller Proportions of Loans

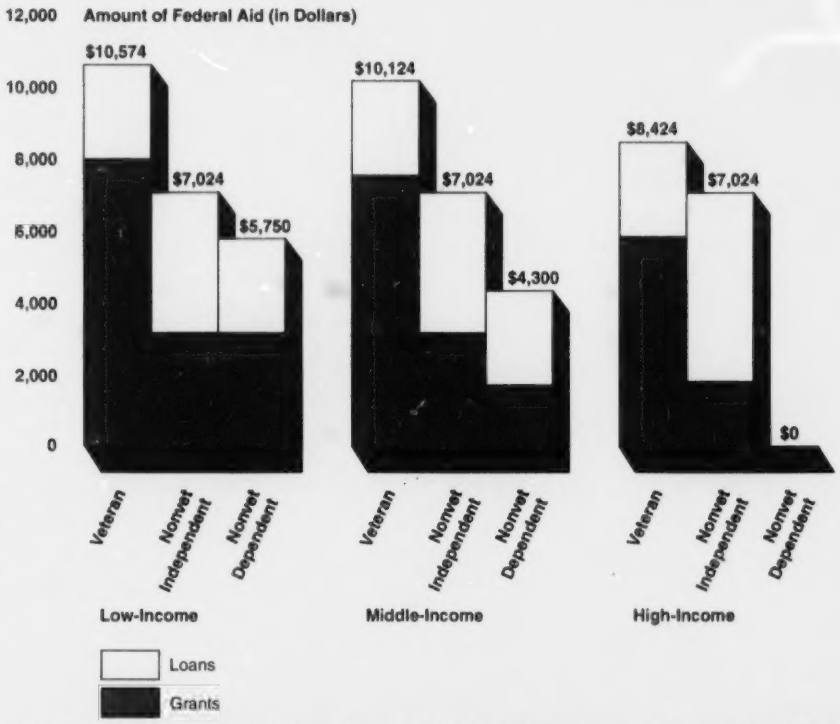
At each type of institution, veterans are awarded total federal aid packages of Pell grant, Stafford loans, and GI benefits that are greater than those awarded to nonveteran students.[5] When veterans and nonveterans have similar characteristics, such as family income, they are awarded on average the same Pell grant and subsidized Stafford loan aid. In contrast, veterans and nonveterans who have similar characteristics are awarded different amounts of unsubsidized Stafford loans. This is largely due to the fact that GI benefits are included in the formula used to award unsubsidized Stafford loans. The only exception is at private 4-year institutions where veteran and nonveteran independent students are awarded the same amount of unsubsidized Stafford loan aid because the average cost of attendance is much greater at these institutions, thus making veterans eligible for unsubsidized Stafford loans.

When comparing total federal aid packages of Pell grants, Stafford loans, and GI benefits, veterans' aid packages have a lower percentage of loans and a larger percentage of grant[6] aid than nonveterans' at each type of institution. As shown in figure 4, among students who attended public 2-year institutions, veterans received aid packages that were greater than nonveterans and consisted of primarily grants. Both nonveteran independent and dependent students at public two-year institutions typically received federal aid packages that were comprised primarily of loans.

[5]See app. I for data on the amount of aid awarded to veteran and nonveteran students at public 2-year, public 4-year, and private 4-year institutions.

[6]For veteran students, grant aid is defined as Pell grants and GI benefits. For nonveteran students, grant aid is defined as Pell grants. Loan amounts for both veteran and nonveteran students include only Stafford subsidized and unsubsidized loans. Parents of dependent students are also eligible to receive federal PLUS loans that are equal to the cost of attendance minus all other assistance. Use of this loan ranges from less than 1 percent of dependent students at public two-year institutions to 11 percent of dependent students at private four-year institutions.

Figure 4: Comparison of Estimated Federal Aid Packages Awarded to Veteran and Nonveteran Students at Public 2-year Institutions, by Income Level

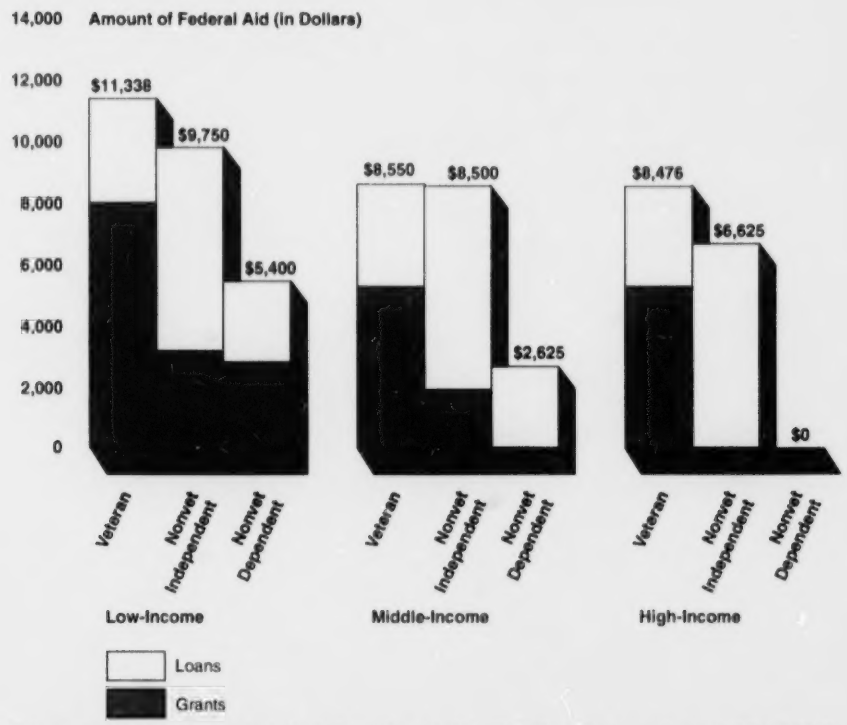


Note: Federal aid packages include Pell grants, subsidized Stafford loans, and unsubsidized Stafford loans, and in the case of veteran students, GI benefits as well. For veterans, we defined grants as Pell grants and GI benefits. For nonveterans, we defined grants as Pell grants. Among each type of student attending public 2-year institutions, the Department of Education determined the 25th, 50th, and 75th percentile of family income, which we classified as low-income, middle-income, and high-income, respectively.

Source: U.S. Department of Education, academic year 1999-2000 data.

Among students attending public 4-year institutions, veterans also received federal aid packages that were larger than nonveterans and most veterans' packages had a lower percentage of loan aid than nonveteran students, as shown in figure 5. Only low-income, nonveteran dependent students received an aid package with a greater proportion of grant aid than loan aid. Among middle-income students, nonveteran independents were awarded almost the same amount of aid as veterans; however, nonveteran independents' aid package was 78 percent loans while veterans' aid package was 39 percent loans. Middle-income nonveteran dependents' federal aid package was comprised entirely of loans.

Figure 5: Comparison of Estimated Federal Aid Packages Awarded to Veteran and Nonveteran Students at Public 4-year Institutions, by Income Level

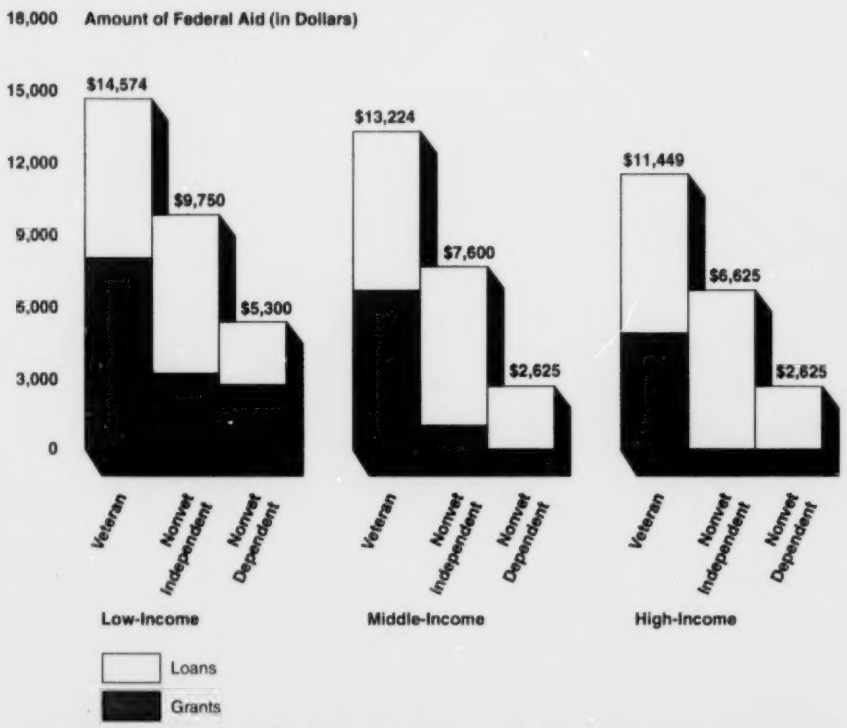


Note: Federal aid packages include Pell grants, subsidized Stafford loans, and unsubsidized Stafford loans, and in the case of veteran students, GI benefits. For veterans, we defined grants as Pell grants and GI benefits. For nonveterans, we defined grants as Pell grants. Among each type of student attending public 4-year institutions, the Department of Education determined the 25th, 50th, and 75th percentile of family income, which we classified as low-income, middle-income, and high-income, respectively.

Source: U.S. Department of Education, academic year 1999-2000 data.

Among students attending private 4-year institutions, veteran students were awarded total aid packages that were greater than those awarded to nonveterans. As shown in figure 6, veterans' aid packages were more evenly balanced between grants and loans, with the exception of high-income veteran students whose aid package was comprised of slightly more loans than grants. In several cases, nonveteran students at private 4-year institutions received aid packages that were entirely loans. See appendix I for detailed data on estimated federal Title IV aid awarded to veteran and nonveteran students at each type of institution.

Figure 6: Comparison of Estimated Federal Aid Packages Awarded to Veteran and Nonveteran Students at Private 4-year Institutions, by Income Level



Note: Federal aid packages include Pell grants, subsidized Stafford loans, and unsubsidized Stafford loans, and in the case of veteran students, GI benefits. For veterans, we defined grants as Pell grants and GI benefits. For nonveterans, we defined grants as Pell grants. Among each type of student attending private 4-year institutions, the Department of Education determined the 25th, 50th, and 75th percentile of family income, which we classified as low-income, middle-income, and high-income, respectively.

Source: U.S. Department of Education, academic year 1999-2000 data.

Amount of Campus-Based Aid Awarded to Veteran and Nonveteran Students Varies by Type of Institution Attended

The amount of campus-based aid awarded to veteran and nonveteran students varied across type of institution attended and by a nonveteran student's dependency status. As shown in table 2, in academic year 1999-2000 veteran students received lower awards than nonveteran dependent students at all institutions and nonveteran independent students at public 2-year institutions, while veterans who attended public 4-year and

private 4-year institutions received larger campus-based aid awards than nonveteran independent students.[7]

Table 2: Average Amount of Campus-Based Aid Awarded to Students, by Type of Institution, Academic Year 1999-2000

Type of institution	Veteran student	Nonveteran independent student	Nonveteran dependent student
Public 2-year	$626	$870	$907
Public 4-year	$1,723	$1,570	$1,992
Private 4-year	$2,042	$1,738	$2,241

Note: Campus-based aid includes only programs funded under HEA Title IV: Supplemental Educational Opportunity Grants, federal work-study, and Perkins loans.

Source: U.S. Department of Education, National Postsecondary Student Aid Study: 2000.

Amount of Education Tax Credits and Deductions Claimed by Veteran and Nonveteran Students is Unknown

Information on the exact amount that veteran and nonveteran students claimed for the HOPE and Lifetime Learning tax credits and the student loan interest deduction is not known; nonetheless there are several factors that are known to affect the amount one may be eligible to claim. The amount of HOPE or Lifetime Learning tax credit one may be eligible to claim is affected by several factors, including the amount of tuition and fees paid, amount of GI benefits and grant aid received, and family income and taxes owed. Generally, veteran and nonveteran students who pay higher tuition and required fees, such as students who attend private 4-year institutions or those with a tax liability greater than the HOPE credit, may claim the full credit of $1,500. Veterans and nonveterans who pay lower tuition and required fees may claim a partial HOPE tax credit. Additionally, veterans who receive GI benefits or nonveteran students who receive grants that equal or exceed the amount of tuition and fees paid may not claim a HOPE tax credit. Likewise, veterans and nonveterans who pay higher tuition and fees may claim the full Lifetime Learning credit of

[7]Estimates of campus-based aid awarded are not strictly comparable to Pell grant and Stafford loan data because campus-based aid is not awarded directly to students. The Department of Education uses a statutory formula to allocate campus-based funds to institutions that then award the aid to students based on financial need. Under the statutory formulas, institutions receive different amounts of campus-based funds. Thus, students who have the same characteristics, but attend different schools, may receive different amounts of campus-based aid. In our calculations of estimated aid awarded, we collected data based on student characteristics and not the actual school attended, therefore we must present data on campus-based aid separately from Pell grant and Stafford loan aid.

$1,000; while veterans who receive GI benefits or nonveterans who receive grant aid that equal or exceed the amount of tuition and fees paid may not claim a Lifetime Learning tax credit. Any student whose income is not higher than $55,000 ($75,000 if a joint filer) and who pays interest on a qualified education loan is eligible to deduct up to $2,500 per year for the first 60 months that interest has been paid on an education loan.[8]

Agency Comments

In written comments on our draft report the Department of Veterans Affairs generally agreed with our reported findings. Veterans Affairs suggested that we include education awards provided through the AmeriCorps program in our review as well. Our analysis focused on comparing benefits that students receive in exchange for their military service to benefits that are awarded under Title IV of HEA and for which no service is required. We did not include AmeriCorps education awards in our review because they are not part of Title IV and because education awards are provided in exchange for community service. In addition, the number of students who earn AmeriCorps education awards is small compared to students who receive benefits through Title IV aid programs. In fiscal year 2000, about 27,000 participants earned an AmeriCorps education award compared to approximately 7.6 million students who received aid through Title IV programs in fiscal year 2001. Veterans Affairs' written comments are printed in appendix II.

The Department of Education provided technical clarifications on our draft report and we have incorporated these where appropriate.

We are sending copies of this report to the secretary of education and secretary of veterans affairs and other interested parties. We will also make copies available to others upon request. The report is available at GAO's homepage, http://www.gao.gov.

[8]In 2002, the 60-month time limit is eliminated and income limits are raised.

If you or your staff have any questions about this report, please contact me on (202) 512-8403. Other major contributors include Jeff Appel and Andrea Romich Sykes.

Sincerely yours,

Cornelia M. Ashby

Cornelia M. Ashby
Director, Education, Workforce,
and Income Security

Appendix I: Estimated Federal Title IV Aid Awarded to Students

The following three tables provide estimates of the amount of Pell grant, subsidized Stafford loan, and unsubsidized Stafford loan aid awarded to veteran and nonveteran students at public 2-year, public 4-year, and private 4-year institutions and the amount of GI benefits available in academic year 1999-2000.

Table 3: Estimated Aid Awarded to First-Year Students Attending Public 2-year Institutions Full-time in Academic Year 1999-2000, by Income Level and Veteran Status

	Veteran student	Nonveteran independent student	Nonveteran dependent student[a]
Low-income[b]	Income = $5,500 EFC=0	Income=$3,726 EFC= 0	Income= $11,588 EFC=0
Pell grant	$3,125	$3,125	$3,125
Subsidized Stafford loan	2,625	2,625	2,625
Unsubsidized Stafford loan	0	1,274	0
GI benefit[c]	4,824	0	0
Total aid	**$10,574**	**$7,024**	**$5,750**
Middle-income	Income = $16,502 EFC= $465	Income= $13,187 EFC=0	Income= $27,743 EFC= S1,480
Pell grant	$2,675	$3,125	$1,675
Subsidized Stafford loan	2,625	2, 625	2,625
Unsubsidized Stafford loan	0	1, 274	0
GI benefit	4,824	0	0
Total aid	**$10,124**	**$7,024**	**$4,300**
High-income	Income = $33,037 EFC= $2,183	Income= $27,725 EFC= $1,337	Income= $57,569 EFC= $7,318
Pell grant	$975	$1,775	0
Subsidized Stafford loan	2,625	2,625	0
Unsubsidized Stafford loan	0	2,624	0
GI benefit	4,824	0	0
Total aid	**$8,424**	**$7,024**	**0**

Note: Average cost of attendance at a public 2-year institution is $7,024. We used a stratified representative sample of all students who applied for and were awarded federal financial aid in academic year 1999-2000 to calculate Pell grant and loan amounts. Expected family contribution (EFC) is a weighted average of the EFC across students with different family characteristics within each student classification—veteran (always classified as independent), nonveteran independent, and nonveteran dependent. Pell grant and loan amounts are calculated using federal statutory rules for awarding aid.

[a]Parents of dependent students have several credit options for financing their child's education, including home equity, private loans, and federal PLUS loans. The maximum amount that a parent may borrow through a PLUS loan is equal to the student's cost of attendance minus all other assistance. Among dependent students who attended public 2-year institutions in academic year 1999-2000, less than 1 percent received PLUS loans.

[b]Among students attending public 2-year institutions, the Department of Education determined the 25th percentile, 50th percentile, and 75th percentile of family income in each student classification, which we defined as low-income, middle-income, and high-income, respectively.

[c]GI benefit amount is based on academic year 1999-2000 rates of $536 per month for veterans attending school full-time for an academic year of 9 months.

Source: U.S. Department of Education.

Table 4: Estimated Aid Awarded to First-Year Students Attending Public 4-year Institutions Full-time in Academic Year 1999-2000, by Income Level and Veteran Status

	Veteran student	Nonveteran independent student	Nonveteran dependent student[a]
Low-income[b]	Income= $4,377 EFC=0	Income= $2,498 EFC= 0	Income= $19,163 EFC= $326
Pell grant	$3,125	$3,125	$2,775
Subsidized Stafford loan	2,625	2,625	2,625
Unsubsidized Stafford loan	764	4,000	0
GI benefit[c]	4,824	0	0
Total aid	**$11,338**	**$9,750**	**$5,400**
Middle-income	Income =$ 14,102 EFC= $2,788	Income= $9,422 EFC= $1,291	Income= $46,590 EFC= $4,580
Pell grant	$400	$1,875	0
Subsidized Stafford loan	2,625	2,625	$2,625
Unsubsidized Stafford loan	701	4,000	0
GI benefit	4,824	0	0
Total aid	**$8,550**	**$8,500**	**$2,625**
High-income	Income= $34,108 EFC= $2,862	Income= $20,973 EFC= $3,998	Income= $85,431 EFC= $14,671
Pell grant	$400	0	0
Subsidized Stafford loan	2,625	$2,625	0
Unsubsidized Stafford loan	627	4,000	0
GI benefit	4,824	0	0
Total aid	**$8,476**	**$6,625**	**0**

Note: Average cost of attendance for a resident student at a public 4-year institution is $11,338. We used a stratified representative sample of all students who applied for and were awarded federal financial aid in academic year 1999-2000 to calculate Pell grant and loan amounts. EFC is a weighted average of the EFC across students with different family characteristics within each student classification—veteran (always classified as independent), nonveteran independent, and nonveteran dependent. Pell grant and loan amounts are calculated using federal statutory rules for awarding aid.

[a]Parents of dependent students have several credit options for financing their child's education, including home equity, private loans, and federal PLUS loans. The maximum amount that a parent may borrow through a PLUS loan is equal to the student's cost of attendance minus all other assistance. Among dependent students who attended public 4-year institutions in academic year 1999-2000, about 6 percent received PLUS loans.

[b]Among students attending public 4-year institutions, the Department of Education determined the 25th percentile, 50th percentile, and 75th percentile of family income in each student classification, which we defined as low-income, middle-income, and high-income, respectively.

[c]GI benefit amount is based on academic year 1999-2000 rates of $536 per month for veterans attending school full-time for an academic year of 9 months.

Source: U.S. Department of Education.

Table 5: Estimated Aid Awarded to First-Year Students Attending Private 4-year Institutions Full-time in Academic Year 1999-2000, by Income Level and Veteran Status

	Veteran student	Nonveteran independent student	Nonveteran dependent student[a]
Low-income[b]	Income= $6,795 EFC=0	Income= $3,297 EFC= 0	Income= $21,082 EFC=440
Pell grant	$3,125	$3,125	$2,675
Subsidized Stafford loan	2,625	2,625	2,625
Unsubsidized Stafford loan	4,000	4,000	0
GI benefit[c]	4,824	0	0
Total aid	**$14,574**	**$9,750**	**$5,300**
Middle-income	Income =$24,248 EFC= $1,311	Income= $15,699 EFC= $2,154	Income= $52,608 EFC= $5,595
Pell grant	$1,775	$975	0
Subsidized Stafford loan	2,625	2,625	$2,625
Unsubsidized Stafford loan	4,000	4,000	0
GI benefit	4,824	0	0
Total aid	**$13,224**	**$7,600**	**$2,625**
High-income	Income= $54,000 EFC= $7,843	Income= $39,649 EFC= $7,518	Income= $97,058 EFC= $17,866
Pell grant	0	0	0
Subsidized Stafford loan	$2,625	$2,625	$2,625
Unsubsidized Stafford loan	4,000	4,000	0
GI benefit	4,824	0	0
Total aid	**$11,449**	**$6,625**	**$2,625**

Note: Average cost of attendance for a resident student at private 4-year institutions is $24,946. We used a stratified representative sample of all students who applied for and were awarded federal financial aid in academic year 1999-2000 to calculate Pell grant and loan amounts. EFC is a weighted average of the EFC across students with different family characteristics within each student classification—veteran (always classified as independent), nonveteran independent, and nonveteran dependent. Pell grant and loan amounts are calculated using federal statutory rules for awarding aid.

[a]Parents of dependent students have several credit options for financing their child's education, including home equity, private loans, and federal PLUS loans. The maximum amount that a parent may borrow through a PLUS loan is equal to the student's cost of attendance minus all other assistance. Among dependent students who attended private 4-year institutions in academic year 1999-2000, about 11 percent received PLUS loans.

[b]Among students attending private 4-year institutions, the Department of Education determined the 25th percentile, 50th percentile, and 75th percentile of family income in each student classification, which we defined as low-income, middle-income, and high-income, respectively.

[c]GI benefit amount is based on academic year 1999-2000 rates of $536 per month for veterans attending school full-time for an academic year of 9 months.

Source: U.S. Department of Education.

Appendix II: Comments from the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

February 15, 2002

Ms. Cornelia M. Ashby
Director, Education, Workforce
and Income Security Issues
U. S. General Accounting Office (GAO)
441 G Street, NW
Washington, DC 20548

Dear Ms. Ashby:

I am pleased to furnish the Department of Veterans Affairs (VA) response to your draft report, ***VETERANS' EDUCATION BENEFITS: Comparison of Federal Assistance Awarded to Veteran and Nonveteran Students*** (GAO-02-368). VA agrees with the information provided in the report and our comments are related to VA programs providing educational benefits to eligible veterans and dependents.

VA believes that one reason for the low program use rate directly relates to the amount of financial assistance available under the Montgomery GI Bill-Active Duty (MGIB). The increased benefit levels authorized in Public Law 107-103 may help address and hopefully lead to more veterans using the benefits. However, VA believes any future MGIB cost-of-living increase should be based on the rising annual cost of education rather than the annual cost of living index.

As you are aware, GAO used the basic $672 per month MGIB benefit rate in effect at the time the report was written. With the enactment of Public Law 107-103, the rate increased to $800 as of January 1, 2002. The law also provided for rates to increase to $900 on October 1, 2002, and to $985 effective October 1, 2003. This will increase the amount of MGIB assistance for full-time students to $7,200, $8,100, and $8,865 per academic year, respectively.

VA would also like to clarify that it appears that the review did not include all forms of Federal financial aid. For example, VA staff suggested during the entrance conference that GAO may want to review the benefit levels provided by the Americorps program. Further, our review seeks clarification if VA work-study payments are included as part of MGIB benefits in the charts on pages 17 and 18. They may have been included in campus-based aid figures, especially when a student's work-study benefits may have included both VA and non-VA payments.

2. Ms. Cornelia M. Ashby

There is an error in Appendix I, page 17. The "Total aid" for a middle-income veteran student should be $10,124 not $0,124.

I appreciate the opportunity to comment on your draft report.

Sincerely yours,

Anthony J. Principi

Anthony J. Principi

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Jeff Nelligan, Managing Director, NelliganJ@gao.gov (202) 512-4800
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